

Message Text

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46

ACTION EA-09

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 8063

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E.O. 11652: N/A

TAGS: EINV, ID

SUBJECT: KIMBERLY-CLARK INVESTMENT - INVESTMENT CLIMATE

REF : STATE 292729

1. REFTEL UNDOUBETEDLY CROSSED JAKARTA'S A-169 WHICH IS OUR LATEST REPORT ON INVESTMENT SITUATION HERE. WE DRAW YOUR PARTICULAR ATTENTION TO LAST TWO PARAS THIS AIRGRAM CONTAINING COMMENTS ON GENERAL INVESTMENT CLIMATE. IN VIEW OF THE COMPLEX CROSS CURRENTS AND THE MANY PLUSSES AND MINUSES IN THE LOCAL SCENE, THE SUBJECT CONTINUES TO BE A PUZZLING AND DIFFICULT ONE, AND NOT READILY MALLEABLE TO DEFINITE CONCLUSIONS.

2. AS SEEN FROM HERE, THE INVESTMENT CLIMATE REMAINS MURKY, BUT THERE ARE ALSO INDICATIONS THAT GOI IS TRYING TO FACE UP TO ISSUE THROUGH DEEDS AND NOT ONLY WORDS. EXAMPLES ARE A RECENT OFFICIAL GOI PUBLIC RELATIONS (INCLUDING INVESTMENT) MISSION TO EUROPE, THE AVOWED EFFORTS OF MINISTER OF STATE REFORMATION SUMARLIN IN THE PERVASIVE AREA OF CORRUPTION, AND AN INDICATION OF SOMEWHAT MORE GIVE AND TAKE BY GOI IN THE CONTINUING NEGOTIATIONS ON OIL PRODUCTION SHARING CONTRACTS. THESE ELEMENTS WILL MOVE SLOWLY, AND IT IS DOUBTFUL THAT NEW GOI INITIATIVES (SUCH AS, FOR EXAMPLE, A PUBLICLY ANNOUNCED MODIFICATION OF THE INDONESIANIZATION POLICY) WILL BE FORTH-

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COMING IN THE NEAR FUTURE, CERTAINLY NOT UNTIL AFTER ELEC-

TIONS. ON THE OTHER HAND, THERE IS EVIDENCE THAT GOI WILL COME TO TERMS WITH ITSELF AND IS DESIROUS OF REESTABLISHING A MORE FAVORABLE CLIMATE FOR BOTH LARGE AND SMALL INVESTORS. A COMPREHENSIVE ANALYSIS OF THIS SITUATION IS IN PREPARATION BY EMBASSY.

3. AS FOR SMALLER INVESTMENTS SUCH AS KIMBERLY-CLARK PROPOSAL, MUCH DEPENDS ON WHAT PARTICULAR SECTOR INVESTMENT IS GOING INTO WITH THOSE HAVING BEEN GIVEN A PRIORITY BY GOI -- AS PAPER AREA HAS -- HAVING BEST PROSPECTS FOR SUCCESS. IN ADDITION, FINANCIAL PROPOSAL CONTAINED IN INVESTMENT PACKAGE WILL BE IMPORTANT FACTOR. SHORTAGE OF LOCAL CAPITAL (COMBINED WITH GOI EFFORTS TO RESTRAIN INFLATION) MAKES A HIGH DEGREE OF FOREIGN EQUITY FINANCING IMPORTANT. THERE IS ALSO MATTER OF HOW ASTUTELY COMPANY WILL HANDLE ITSELF IN PURSUING ITS INTERESTS HERE. REALISTIC PROFESSIONALISM, ADEQUATE PREPARATION, TECHNICAL COMPETENCE, AND HARD-HEADED SOPHISTICATION ARE NECESSARY QUALITIES FOR THE SMALL INVESTOR IN INDONESIA. WE WOULD RECOMMEND THAT FIRMS SUCH AS KIMBERLY-CLARK, IF THEY HAVE NOT ALREADY DONE SO, CONSULT CLOSELY WITH MAJOR US BANKS, NOT ONLY REGARDING FINANCING, BUT ALSO ON THEIR CONSIDERABLE RECENT EXPERIENCES IN DEALING WITH LOCAL SITUATION.

4. IN RECENT CONVERSATION WITH DEPUTY CHAIRMAN AFFIF OF BAPPENAS, EMBASSY LEARNED THAT PAPER PRODUCTION IS HIGH PRIORITY AREA FOR GOI. OFFICIAL BEMOANED FACT THAT LITTLE INTEREST HAD BEEN EXHIBITED BY FOREIGN INVESTORS IN THIS AREA. THIS ATTITUDE MAY BE RELEVANT TO KIMBERLY-CLARK'S PROPOSED VENTURE HERE. IN SUM, WE BELIEVE KIMBERLY-CLARK SHOULD NOT WRITE-OFF POSSIBILITY OF INVESTMENT IN INDONESIA. INDEED, WE WOULD SUGGEST THAT THEY CONTINUE TO EXPLORE FULLY OPERATING AND MARKETING PROSPECTS FOR THEIR PROJECT.
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